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NAB tips peak-to-trough house price decline of 20pc

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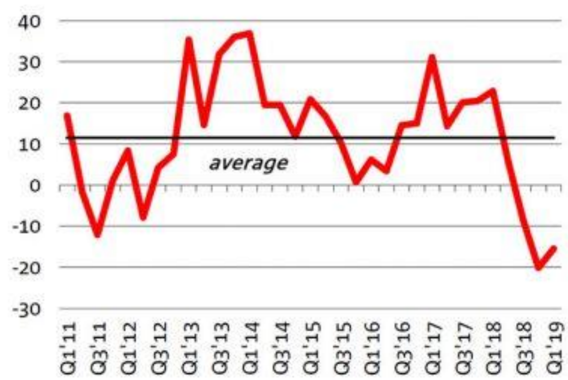
by Liz Jordan - 5 min read

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q4'18	Q1'19	Next 1yr	Next 2yrs
VIC	-28	-21	-13	8
NSW	-50	-36	-26	8
QLD	8	-9	4	22
SA/NT	0	32	36	32
WA	-13	-8	23	56
AUST	-20	-15	-3	21

VIEW FROM NAB ECONOMICS

NAB HEDONIC HOUSE PRICE FORECASTS (%)*

	2017	2018	2019f	2020f
Sydney	3.4	-10.0	-8.4	-1.9
Melbourne	11.3	-9.1	-8.8	-2.2
Brisbane	2.5	0.4	-1.8	0.0
Adelaide	3.2	1.3	0.5	1.7
Perth	-1.2	-4.3	-2.9	0.0
Hobart	11.4	8.3	2.7	1.8
Cap City Avg	4.8	-6.7	-6.1	-1.0

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2017	2018	2019f	2020f
Sydney	2.6	-6.3	-7.2	-2.5
Melbourne	7.6	-2.3	-4.3	-1.0
Brisbane	-1.0	-0.7	-4.2	-2.2
Adelaide	-1.2	1.7	0.9	0.5
Perth	-3.5	-6.5	-4.7	-0.8
Hobart	13.7	10.2	1.6	1.2
Cap City Avg	3.2	-4.3	-5.6	-1.8

*percentage changes represent through the year growth to Q4
SOURCE: CoreLogic, NAB Economics

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NAB has downgraded its house price forecast for 2019 after weak conditions early this year were worse than expected.

Sydney and Melbourne will continue to lead the decline, but the major lender now anticipating peak-to-trough falls of 20% and 15% respectively. Perth is expected to remain weak, while the other capitals will hold up.

The revision follows Moody's Analytics announcing its own downgraded forecast earlier this week. NAB is now tipping house price falls in 2019 of 8.4% in Sydney, and then 1.9% in 2020. Melbourne will fall by 8.8% and then 2.2%; while Brisbane values will shed 1.8% and Perth's 2.9% before both steadying next year. Adelaide house prices will increase by 0.5% in 2019 and by 1.7% next year, and in Hobart by 2.7% and 0.8%.

Falls are expected more widely in the unit market. Sydney values will drop by 7.2% and then 2.5%; in Melbourne by 4.3% and 1.0%; in Brisbane by 4.2% and 2.2%; and in Perth by 4.7% and 0.8%.

Alan Oster, NAB chief economist, said that overall, NAB sees the adjustment in house prices continuing in an orderly manner, with prices remaining well up on five years ago.

"That said, the moderation in prices has spilled over to housing related activity with approvals for new building having fallen and dwelling investment showing a sharp decline in the December quarter."

Approvals unexpectedly bounced back in February, according to official data, but this is expected to be a blip in what can be a volatile dataset. In annual terms, total approvals were down 12.5% in February, with detached houses lower by 13.8% lower and multi-dwellings 9.1%.
"While the slowing in construction and potential 'wealth effects' may weigh on economic activity, these adjustments are occurring at a time of low unemployment and low interest rates, while population growth remains relatively strong – factors that should work to support the property market," Oster said.

Construction activity contracted for the 12th consecutive month in March, according to the Australian Industry Group/HIA Performance of Construction Index
Market sentiment among surveyed property professionals improved slightly in the first quarter of 2019, according to NAB's latest *Quarterly Australian Residential Property Survey*, as the monthly rate of house price decline eased.
The NAB Residential Property Index rose by 5, but remains firmly in negative territory at -15. Sentiment was negative in all states but SA/NT, which jumped from neutral to 32, with annual dwelling prices in SA remaining positive. Weakest sentiment was seen in New South Wales and Victoria as values in the country's biggest markets head for further falls, although both improved to -36 and -21.

Longer-term confidence has improved, suggesting housing market conditions may start improving moving into 2021. Western Australia harbours the most optimism, at readings of 23 for the next 12 months and then 56 for 24 months' time; SA/NT is at 36 and 32; and QLD 4 and 22; while NSW and Victoria will gradually move into positive territory by 2021.

NAB's survey showed yields are expected to improve with further rental growth, with the fastest expected in WA (2.6%), SA/NT (1.6%), and Victoria (1.2% vs. 1.0%), each of which were revised upwards. Queensland expectations for rental growth were shaved to 0.8%, and NSW growth is expected to be flat.

Buying activity in new and establishing housing markets appears to be currently driven by owner occupiers (including both upgraders and first home buyers), while investors – domestic and foreign – continue their retreat from the market.

Investor lending was 29.1% lower year-on-year in February, and 13.9% lower for owner occupiers, according to the latest Australian Bureau of Statistics data.
The market share of foreign buyers broadly has fallen to just 4.9%, having hit a survey high in Q3 2014 of 16.8%, while was broadly unchanged in established markets at 3.4%.

Access to credit is still the key constraint on new housing development and for buyers of established property in all states, according to surveyed property professionals, and Oster said NAB remains of the opinion that tight credit would continue to be the single biggest constraint for new housing developments in the near future as risk aversion remains a key theme among lenders.

Stamford Capital's *Real Estate Debt Capital Markets Survey 2019*, which surveys a range of lenders, showed reveals that while 84% of major and second-tier banks require pre-sales of between 60% to 100%, 34% of non-bank lenders have no pre-sale commitment requirement.
"The pre-sales hurdle is now a barricade in the market and this is where we are witnessing one of the biggest divides between bank and non-bank lenders. It is no surprise that non-bank lenders are continuing to gain momentum in this market," Stamford Capital executive director, Michael Hynes said.

Interest cover ratio has replaced loan value ratio as the preferred metric for bank credit assessments, and 60% of term-debt lenders see an ICR of 1.5 times for investment lending with banks seeking at least 2 times ICR.

“Lenders are definitely looking to find their feet in this rapidly changing landscape and typically the non-bank lenders are nimbler at this as they are not governed by APRA,” Hynes said.

However, 65% said they expect APRA to increase oversight on the non-bank sector, potentially reducing their competitive edge.

One third of respondents revealed concerns are limited to specific locations and market sectors, with the top three identified for risk being inner-city residential apartment oversupply in inner-urban areas of Sydney, Melbourne and Brisbane; pre-sales settlement defaults in new residential projects; and under-performing retail assets.

While 73% of respondents are looking to increase the size of their loan book, this is down from 92%, while 90% of non-bank lenders expect to increase or maintain their loan book size, with 62% indicating they expect increasing by 15%.

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